

China Taiping (966 HK)

More cautious on underwriting outlook

China Taiping announced 1H19 results on 28 Aug, which was better on RMB basis compared to that on HK\$ basis due to exchange rate fluctuations. Overall speaking, results was mixed. While underwriting business showed weakness, investment performance was relatively robust. The Group achieved GWP of RMB 1.2bn, up 13.2% YoY. Net profit increased 29.5% to HK\$ 6.74bn thanks to i) tax savings after adopting new tax-deduction policies and ii) enhanced net investment income. Group EV rose 12.2% YoY to HK\$ 43.57 per share.

- Results negatives. 1) Life NBV growth missed, posting 9.5% YoY decline on RMB basis.** This was due to i) margin compression. For individual business, NBV margin was 26.4%, down 3.5ppt from a year earlier; and ii) FYRP of individual channel declined 4.5% YoY to RMB 17.1bn. Number of individual agents decreased 41.4k, or 8.1% to 471,611 over 1H19. Disappointingly, number of high productivity agents also declined and other metrics of agent team building recorded mixed trends, adding to uncertainties in 2H19. **2) Combined ratio of TPI climbed 0.3ppt YoY to 99.8%**, though still maintained underwriting profitability. Expense ratio rose 3.5ppt. **3) Motor insurance slowed down**, of which premium growth was negative on HK\$ basis due to regulatory and macro headwinds.
- Results positives. 1) Life premium growth (of TPL) exceeded major peers** at 11.3% on RMB basis (vs. China Life +4.9%, Ping An +9.7%, CPIC +5.6%, NCI 9.0%). Renewal premiums increased 15.2% YoY thanks to advancing persistency ratios, offsetting weak FYP growth (+0.6%). **2) Bancassurance transformation deepened**, with FYRP increasing 31.4% YoY. **3) Outstanding investment performance boosted net profit.** The Company has enhanced strategic asset allocation. Net investment income rose 20.8% YoY to HK\$15bn, among which dividend income was HK\$1.55bn, up 26.1% YoY. **4) Technology and operation platforms to empower business.**
- Cut TP to HK\$26.14.** We turn more cautious about 2H19 outlook given lackluster life underwriting and agent team activities. P&C business will also be under pressure. We lower NBV estimate for the whole year. We also cut our TP to HK\$26.14 to reflect these changes. The stock is currently trading at 0.41x FY19E P/EV at historical low. Valuation is undemanding. Maintain BUY.

Earnings Summary

(YE 31 Dec)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium (HK\$ mn)	178,676	199,632	214,713	234,349	253,392
Total income (HK\$ mn)	196,100	213,662	231,422	254,545	276,247
Net profit (HK\$ mn)	6,136	6,884	8,547	9,514	10,314
EPS (HK\$)	1.64	1.84	2.31	2.58	2.80
EPS CHG (%)	28.41	12.71	25.09	11.67	8.64
P/E (x)	11.15	9.89	7.91	7.08	6.52
P/B (x)	0.99	1.00	0.89	0.82	0.75
P/EV (x)	0.52	0.47	0.41	0.38	0.35
Yield (%)	0.55	0.55	0.82	0.82	0.82
ROE (%)	9.88	10.42	12.27	12.39	12.31

Source: Company data, CMBIS estimates

BUY (Maintain)

Target Price	HK\$26.14
(Previous TP)	HK\$30.25)
Up/Downside	+42.1%
Current Price	HK\$18.24

China Insurance Sector

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Stock Data

Mkt Cap (HK\$ mn)	65,555
Avg 3 mths t/o (HK\$ mn)	174.71
52w High/Low (HK\$)	28.20/ 18.12
Total Issued Shares (mn)	3,594

Source: Bloomberg

Shareholding Structure

China Taiping Group	59.64%
Free float	40.36%

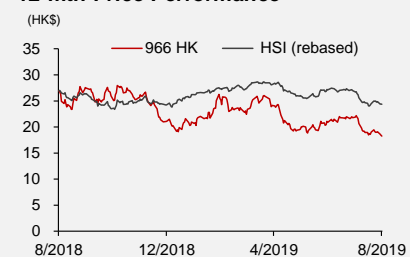
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	-15.6%	-6.6%
3-mth	-5.6%	0.3%
6-mth	-26.8%	-18.0%

Source: Bloomberg

12-mth Price Performance



Source: Bloomberg

Auditor: PwC

Related Reports

- "Looking forward to market-based mechanisms" – 2 Apr 2019
- "Effective agent team mgmt. underpins 2H18 growth" – 24 Aug 2018
- "NBV growth lead; P&C margin improved" – 26 Mar 2018

Focus charts

Figure 1: Earnings

HK\$ mn	1H19	1H18	YoY
Total premiums written and policy fees	138,923	130,088	6.8%
- TPL	108,090	101,125	6.9%
- TPI	15,949	15,428	3.4%
- Overseas	3,630	3,306	9.8%
- TPRe	9,568	8,538	12.1%
- TPP	3,132	3,491	-10.3%
Less: Premiums ceded	(6,064)	(6,013)	0.8%
Net premiums written and policy fees	132,860	124,075	7.1%
Change in unearned premium reserves	(3,352)	(1,610)	108.3%
Net earned premiums and policy fees	129,507	122,465	5.8%
Net investment income	14,996	12,416	20.8%
Net realized gains	1,561	1,616	-3.4%
Net unrealized gains (losses)	(908)	(861)	5.4%
Other income	2,467	2,422	1.8%
Total income	147,624	138,058	6.9%
Net policyholders' benefits	(30,009)	(54,014)	-44.4%
Net commission expenses	(13,401)	(14,234)	-5.8%
Administrative and other expenses	(16,869)	(14,469)	16.6%
Net change in life insurance contract liabilities	(77,403)	(44,072)	75.6%
Total benefits, losses and expenses	(137,683)	(126,788)	8.6%
Share of profits from associates and JVs	216	(68)	NA
Finance costs	(1,231)	(1,248)	-1.4%
Profit before tax	8,926	9,954	-10.3%
Income tax	157	(3,078)	NA
Profit after taxation	9,083	6,876	32.1%
Minority	2,338	1,667	40.3%
Net profit	6,744	5,209	29.5%

Source: Company data

Figure 2: Revisions of estimates

RMB mn	New			Old			Diff		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
GWP	214,713	234,349	253,392	234,542	266,843	297,216	-8.5%	-12.2%	-14.7%
Total income	231,422	254,545	276,247	248,409	285,117	319,489	-6.8%	-10.7%	-13.5%
Net profit	8,547	9,514	10,314	7,968	8,880	9,446	7.3%	7.1%	9.2%
New business value of TPL	12,266	12,605	12,852	13,641	14,037	14,309	-10.1%	-10.2%	-10.2%
Embedded value (group)	158,179	174,124	189,488	154,363	169,794	185,807	2.5%	2.6%	2.0%
RoEV (CPIC Life)	16.0%	14.5%	13.4%	14.8%	13.9%	13.1%	8.1%	4.8%	2.3%
NBV growth	-7.3%	2.8%	2.0%	3.0%	2.9%	1.9%	-10.3ppt	-0.1ppt	+0.1ppt

Source: Company data, CMBIS estimates

Figure 3: P/EV



Source: Company data, CMBIS estimates

Financial Summary

Income statement

YE 31 Dec (HK\$ mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Gross written premium	178,676	199,632	214,713	234,349	253,392
Incl: Life GWP	133,847	148,309	157,223	172,530	187,204
P&C GWP	26,099	28,875	30,030	31,531	33,108
Net premiums earned	170,190	184,574	195,187	213,633	230,862
Investment income	21,647	22,583	30,575	34,318	37,915
Total income	196,100	213,662	231,422	254,545	276,247
Insurance claims and reserves	(133,952)	(142,420)	(157,389)	(169,333)	(182,914)
Other operating expenses	(48,833)	(56,051)	(60,790)	(65,982)	(72,650)
Total expenses	(182,785)	(198,472)	(218,180)	(235,315)	(255,565)
Associates and JVs	528	344	354	365	376
Finance cost	(2,124)	(2,421)	(2,180)	(2,180)	(2,180)
Pre-tax profit	11,720	13,112	11,417	17,415	18,878
Income tax	(3,756)	(4,292)	(466)	(5,224)	(5,664)
Less: Minority interests	1,828	1,936	2,404	2,676	2,901
Net profit	6,136	6,884	8,547	9,514	10,314

Key ratios

YE 31 Dec	FY17A	FY18A	FY19E	FY20E	FY21E
Group (%)					
Total GWP growth	19.7%	11.7%	7.6%	9.1%	8.1%
Total income growth	17.7%	9.0%	8.3%	10.0%	8.5%
Net profit growth	27.0%	12.2%	24.2%	11.3%	8.4%
EV growth	20.4%	11.3%	13.3%	10.1%	8.8%
Net investment yield	4.32%	4.41%	4.57%	4.64%	4.62%
Total investment yield	4.47%	3.93%	4.62%	4.54%	4.52%
Life (%)					
GWP growth	19.7%	10.8%	6.0%	9.7%	8.5%
Agent FYRP growth	24.6%	11.2%	-7.0%	2.0%	2.0%
NBV growth	49.6%	-2.9%	-7.3%	2.8%	2.0%
NBV margin (agent, APE)	46.0%	40.9%	40.0%	40.0%	40.0%
Life comprehensive solvency	246%	224%	220%	216%	212%
P&C (%)					
GWP growth	22.5%	10.6%	4.0%	5.0%	5.0%
Loss ratio	52.2%	53.9%	50.6%	50.5%	50.4%
Expense ratio	47.3%	45.9%	49.2%	49.1%	49.1%
Combined ratio	99.5%	99.8%	99.8%	99.6%	99.5%
P&C comprehensive solvency	216%	225%	223%	220%	215%
Returns (%)					
Life RoEV	29.5%	18.2%	16.0%	14.5%	13.4%
Group ROE	9.9%	10.4%	12.3%	12.4%	12.3%
Per share					
EPS (HKD)	1.64	1.84	2.31	2.58	2.80
DPS (HKD)	0.10	0.10	0.15	0.15	0.15
EVPS (HKD)	34.89	38.83	44.01	48.45	52.72
BVPS (HKD)	18.49	18.29	20.46	22.28	24.33

Balance sheet

YE 31 Dec (RMB mn)	FY17A	FY18A	FY19E	FY20E	FY21E
Investment assets	539,930	608,295	714,866	795,869	881,534
other assets	126,544	143,806	150,996	155,526	158,637
Total assets	666,474	752,101	865,862	951,395	1,040,171
Insurance liabilities	414,629	473,439	577,126	690,426	811,277
Borrowings & others	170,124	198,266	198,799	163,014	121,939
Total liabilities	584,753	671,706	775,925	853,441	933,217
Shareholders' equity	66,440	65,730	73,531	80,085	87,443
Minority interest	15,280	14,666	16,406	17,869	19,511
Total equity	81,721	80,396	89,937	97,954	106,954

Source: Company data, CMBIS estimates

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